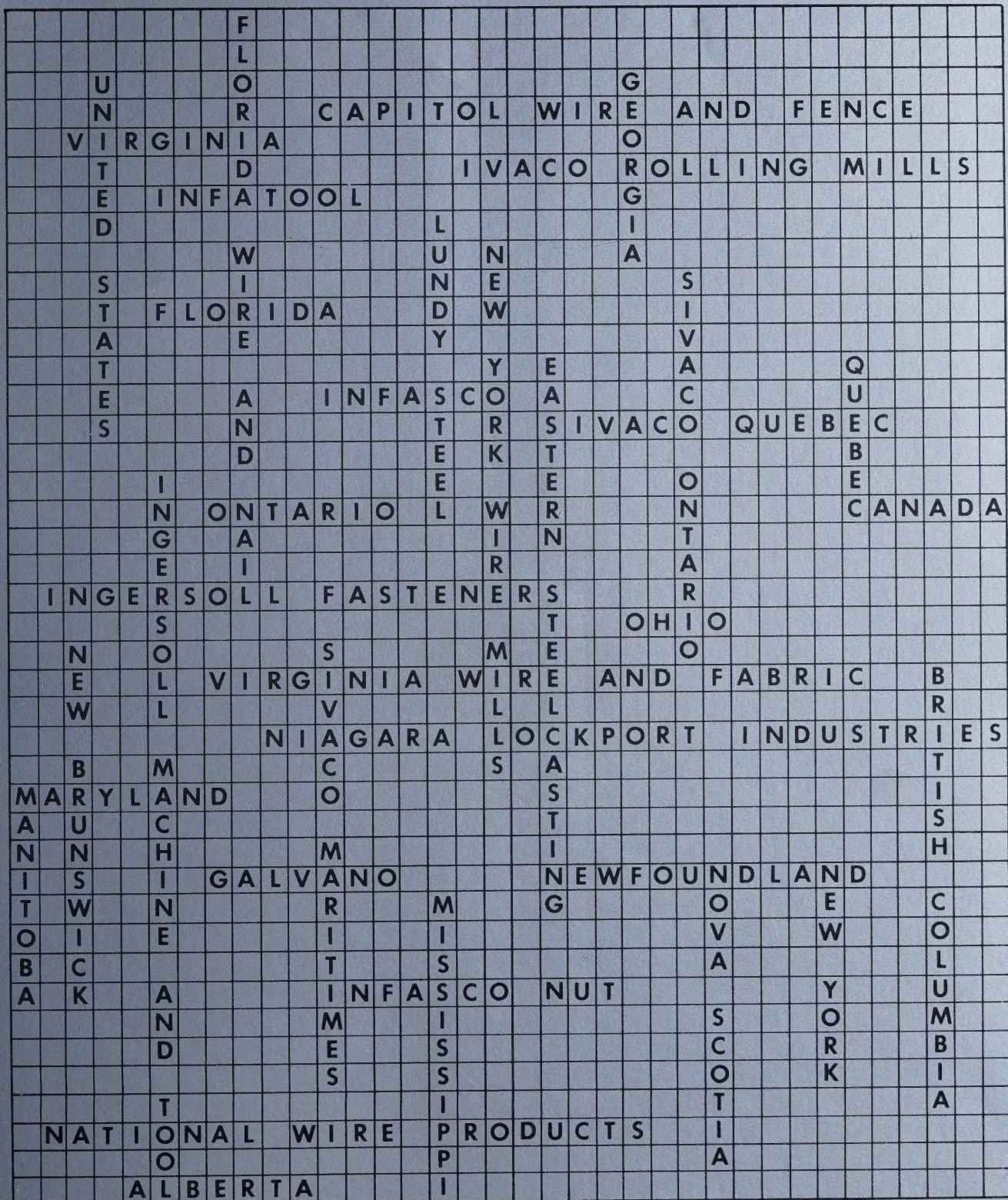


IVACO LTD.

annual report 1978



Ten-Year Financial Summary

(in millions except per share amounts)

Operating Results	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
Net sales	\$265.9	166.8	136.0	103.0	150.7	90.2	53.9	43.2	27.6	11.0
Depreciation and amortization	\$ 8.0	6.8	6.1	3.6	3.3	2.4	1.5	1.2	0.7	0.3
Earnings before income taxes	\$ 41.1	14.6	7.2	6.4	37.6	14.2	8.9	7.5	4.6	2.2
Provision for income taxes	\$ 16.7	4.6	1.6	1.7	16.5	5.8	4.1	3.7	2.3	1.1
Net earnings (Note 1)	\$ 24.0	9.8	5.4	4.5	20.4	8.1	4.6	3.7	2.1	1.0
Per common share (Notes 1 & 2)	\$ 2.44	0.99	0.58	0.48	2.37	0.98	0.61	0.52	0.39	0.25
Return on sales	% 9.0	5.9	4.0	4.4	13.6	9.0	8.6	8.5	7.5	9.2
Financial Position	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
Current assets	\$131.2	105.9	100.6	88.6	76.8	44.0	35.3	28.1	12.1	4.3
Current liabilities	\$ 74.1	69.5	69.5	59.5	45.9	25.6	22.2	18.4	7.4	3.0
Working capital	\$ 57.1	36.4	31.1	29.1	30.9	18.4	13.1	9.7	4.7	1.3
Net additions to fixed assets	\$ 27.6	19.7	7.4	16.0	32.4	14.6	6.9	8.3	2.5	0.9
Total assets	\$278.5	224.9	203.5	188.0	160.4	102.9	70.2	52.9	24.5	9.3
Long-term liabilities	\$ 58.4	30.8	32.2	33.5	29.8	18.6	14.7	7.2	2.2	2.1
Shareholders' equity	\$116.8	95.6	74.2	70.8	67.3	48.1	26.5	21.8	8.9	2.6
Dividends	\$ 5.3	2.6	1.9	1.9	1.7	0.4	0.2	0.2	—	—
Book value per common share (Note 2)	\$10.50	8.53	7.82	7.43	7.05	4.89	3.14	2.57	1.66	0.65

NOTES: 1. Net earnings and net earnings per common share are after providing for minority interests and before including an extraordinary gain in 1975.

2. Representing on a retroactive basis the effect of a two-for-one stock split as of July 3, 1973.

The Annual Meeting of the Company will be held on May 29, 1979 at 10:00 a.m. at Le Salon Viger of le Château Champlain Hotel, Montreal, Quebec.

Cover Design

The cross-word cover symbolizes the inter-relationships between Ivaco's many divisions and subsidiaries and the States and Provinces in which they operate. It offers a reminder that ample room remains for continued integrated growth.

Financial Highlights

(in thousands except per share amounts)

	1978	1977
Sales	\$265,852	166,765
Net Earnings	\$ 23,971	9,765
Net Earnings per Common Share	\$ 2.44	0.99
Net Additions to Fixed Assets	\$ 27,550	19,671

Officers

Isin Ivanier
Chairman

Paul Ivanier
President

Sydney Ivanier
Senior Vice-President

Michael Herling
Senior Vice-President
and Secretary

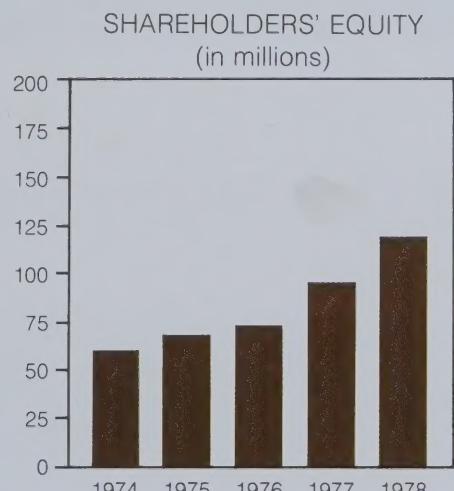
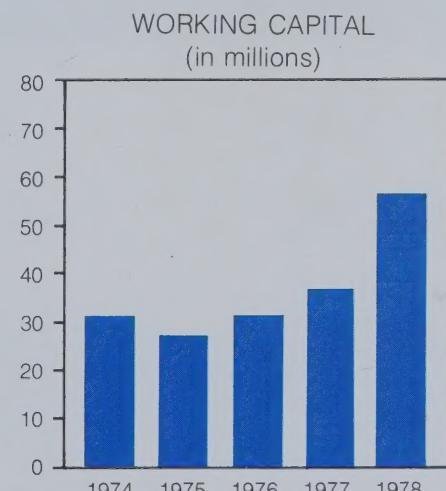
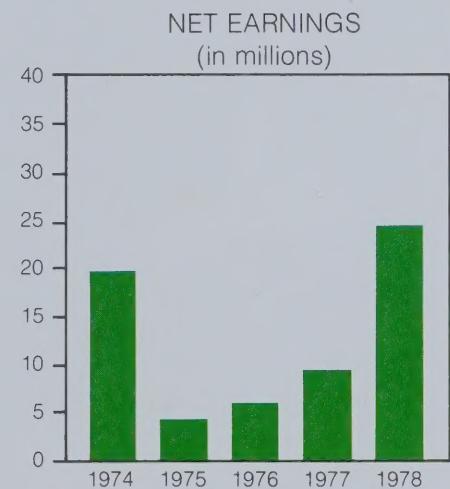
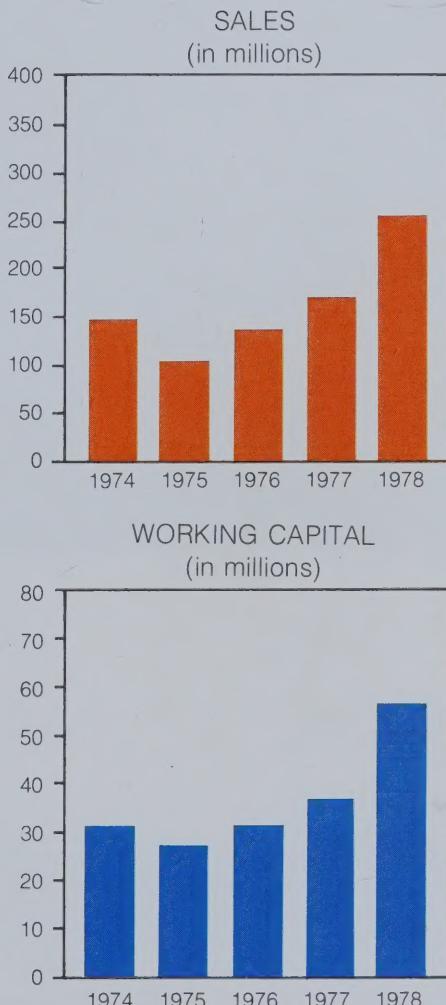
Jack Klein
Senior Vice-President

John Loveridge
Vice-President

M. R. Cairns
Vice-President

Albert A. Kassab
Vice-President

George Goldstein
Vice-President



HEAD OFFICE:
800 Ouellette Street, Marieville, Quebec

TRANSFER AGENT AND REGISTRAR:
The Royal Trust Company in Halifax,
Montreal, Toronto, Calgary and Vancouver

AUDITORS:
Touche Ross & Co.,
Montreal, Quebec

SHARES LISTED:
Montreal Stock Exchange
Toronto Stock Exchange



Paul Ivanier

Isin Ivanier

To Our Shareholders:

April 11, 1979

1978 has been the most gratifying year in your Company's history in terms of sales and earnings and the progress made in the expansion program. The following will provide you with some highlights of the year just past, review recent expansion and acquisitions and provide an outlook for 1979.

Company Operations

Sales, earnings and earnings per share were the highest in the Company's history. Sales increased 59% to \$265.9 million, net earnings increased 145% to \$24 million and net earnings per share increased 146% to \$2.44 per share. These record results reflect a continuing

high level of production at the Company's plants, the coming on stream of new manufacturing facilities, and the favorable effect of the lower Canadian dollar.

Working capital reached a new high of \$57.1 million at year end, up \$20.7 million from the previous year. Working capital during the year was provided mainly by operations and by issuance of the Company's debentures. Operations provided \$35.3 million of working capital and issuance of the Company's Series A and Series B debentures and miscellaneous items provided \$26.6 million. Out of these resources we used \$27.6 million for

new plant facilities, paid dividends of \$5.3 million and provided \$8.3 million for the investment in National Wire Products, which was completed in February 1979.

Billet supply contract

The high level of wire rod production at Ivaco Rolling Mills created a need for the supply of additional quantities of steel billets beyond the 300,000 tons produced last year by our Eastern Steelcasting plant. In order to secure these additional needs your Company entered into a billet supply contract with Sydney Steel Corporation. This five-year contract calls for delivery, at Ivaco's option, of 110,000 tons to 150,000

IVACO

Interim Report
to
Shareholders
for
the Six Months
ended
June 30, 1978

✓

IVACO INDUSTRIES LIMITED
MARIEVILLE QUEBEC

Consolidated Statement of Earnings

For the Six Months ended June 30, 1978 (Unaudited)

(in thousands of dollars except per share amounts)

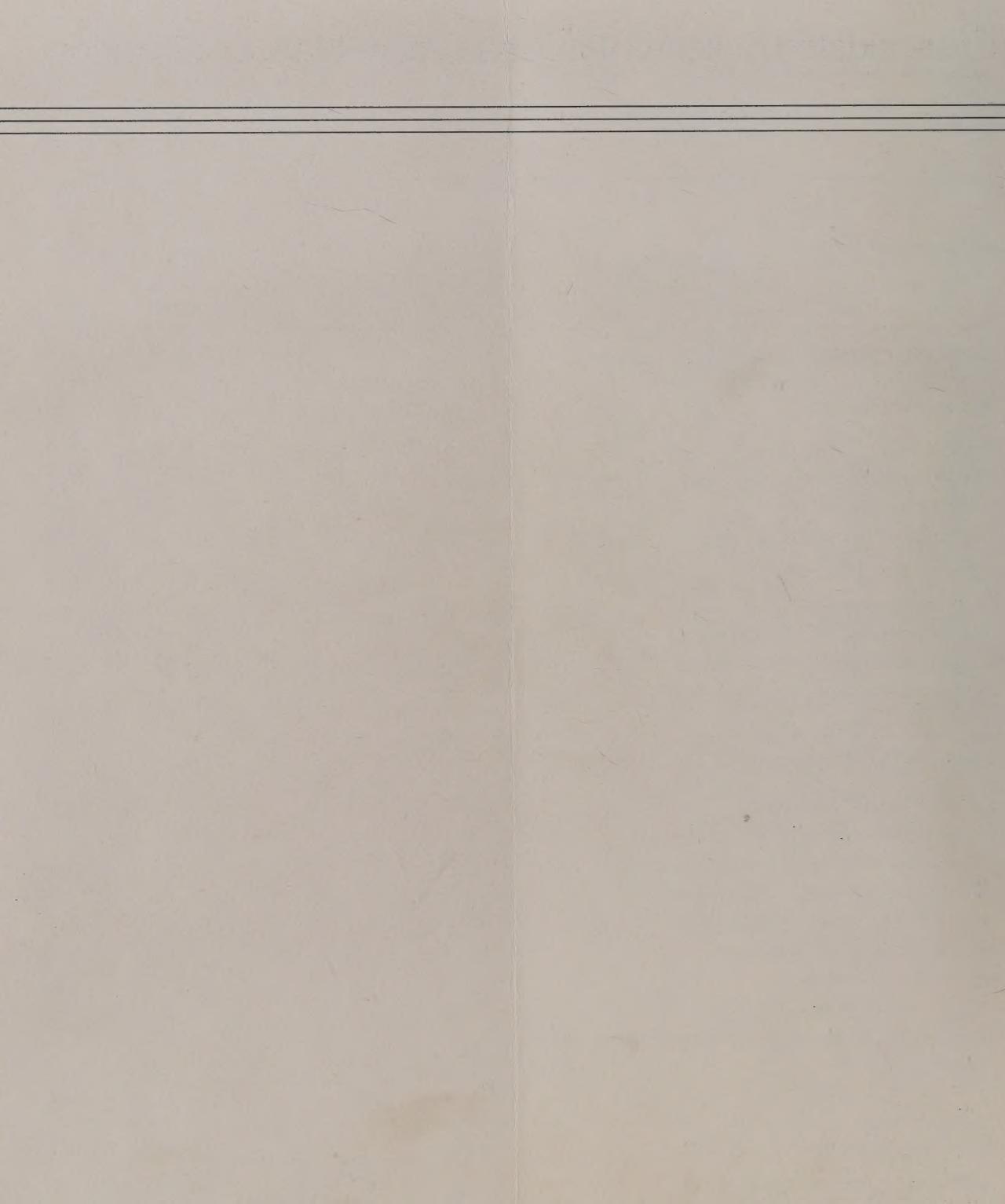
	Six Month Period ended June 30 1978		Three Month Period ended June 30 1978	
Net Sales	\$122,425	\$82,573	\$67,807	\$44,343
Cost and expenses exclusive of items listed below	98,310	68,037	54,169	36,579
Depreciation	3,418	2,819	1,757	1,404
Amortization	606	503	309	249
Interest on long-term liabilities	1,868	1,765	958	903
Interest on short-term borrowings	1,792	1,987	985	1,047
	105,994	75,111	58,178	40,182
Investment income	105	165	12	39
	105,889	74,946	58,166	40,143
Earnings before income taxes and minority interests	16,536	7,627	9,641	4,200
Provision for income taxes	6,494	2,657	3,817	1,500
Minority interests	353	133	209	57
	6,847	2,790	4,026	1,557
Net earnings	\$ 9,689	\$ 4,837	\$ 5,615	\$ 2,643
Net earnings per common share	\$0.98	\$0.53	\$0.57	\$0.29

Consolidated Statement of Changes in Financial Position

For the Six Months ended June 30, 1978 (Unaudited)

(in thousands of dollars)

	1978	1977
WORKING CAPITAL, JANUARY 1	\$36,432	\$31,067
SOURCE OF FUNDS:		
Net earnings	9,689	4,837
Charges to earnings not requiring the current outlay of funds		
Minority interests	353	133
Depreciation and amortization	4,024	3,322
Deferred income taxes	1,251	272
Funds from operations	15,317	8,564
Issue of preferred shares, Series "C"	—	15,000
Issue of capital stock on acquisition of Lundy Steel	720	—
Net increase in long-term liabilities	84	—
	16,121	23,564
APPLICATION OF FUNDS:		
Net additions to fixed assets	7,755	4,240
Acquisition of shares of Lundy Steel	1,623	—
Costs of installation of natural gas pipeline	738	—
Net increase (decrease) in investments	232	(533)
Net decrease in long-term liabilities	—	2,205
Acquisition of minority interests	143	—
Dividends — preferred	784	121
— common	909	818
Costs relating to the issue of preferred shares, Series "C"	—	510
Other items	57	125
	12,241	7,486
INCREASE IN WORKING CAPITAL	3,880	16,078
WORKING CAPITAL, JUNE 30	\$40,312	\$47,145



tons of steel billets per year to Ivaco Rolling Mills at prices which are adjusted quarterly according to a predetermined formula.

New plant facilities

The philosophy at Ivaco has always been that growth is of major importance both through the expansion of existing plants and through acquisition.

During 1978 the Steelmaking Group made a substantial expansion to its scrap storage yard and extended its billet bay area; both expansions were required due to the high levels of steelmaking production.

In the Wire Group a new nail, wire and mesh plant was constructed at Quincy, Florida; additional nail machines and a third oil tempered spring wire line were installed at Tonawanda, New York; additional nail, mesh and wire drawing equipment was installed at Warrenton, Virginia; an acid regeneration installation, a new wire rod pickling line and a fume control system were completed at Marieville. The capacity of the wire galvanizing line at Marieville was also substantially increased during the year.

In the Fastener Group a major expansion took place at Toronto with the start-up of the new Infasco Nut plant. Additional high-speed boltmaking equipment was installed at Marieville and Ingersoll and additional warehousing space was added at Marieville.

The Fourdrinier and Felt Group's major expansion in 1978 was the installation of a needle loom and a 900 inch wide loom at Starkville, Mississippi.

In mid 1978 the Company completed its acquisition of Lundy Steel. Lundy's plant at Dunnville, Ontario manufactures bright and galvanized wire, welded wire fabric, chain link and farm fencing and barbed wire. Galvanized wire capacity at Lundy has recently been expanded and is now on stream.

The Galvano division, located at Beloeil, Quebec, was also acquired late in the year. This division electro-galvanizes nuts and bolts for the Fastener Group and galvanizes nails for the Wire Group.

Issue of \$45 million debentures

In December the Company completed the issuance of its Series A and Series B debentures to The Prudential Insurance Company of America for \$25 million U.S. funds and \$20 million Canadian.

The new debentures are repayable over 15 years and carry interest at 9 1/4% for Series A and 10% for Series B. The proceeds were used to prepay approximately \$25 million of medium and long term debt which had a remaining average life of about 6 years and carried an average interest rate of 11.5%. The remaining proceeds from this financing were made available for general corporate purposes.

Dividend Policy

The continued growth of the Company has always been of primary importance in establishing your Company's dividend policy. An initial dividend of 15 cents per common share was paid in 1974 and at that time a policy was established of paying quarterly dividends of 5 cents per share. This policy has been reviewed from time to time and in light of the favorable 1978 operating results an extra dividend of 20 cents per share was declared in December 1978 bringing the total dividend for the year to 40 cents per share. At the same time the quarterly dividends for 1979 were increased to 7 cents per share and a policy was established to declare an extra dividend towards the end of each year. The amount of the extra dividend will depend upon the results of the Company's operations for that particular year. We feel that the dividend policy adopted by your Company will provide an increased return to our shareholders, and at the same time will still enable the Company to remain committed to continued growth in future years.

Corporate Structure

During 1978 the corporate name was changed to Ivaco Ltd. and several subsidiaries were merged into the parent company. As a result Ivaco now operates with the following divisions: Eastern Steelcasting, Galvano, Infasco, Infasco Nut, Ivaco Rolling Mills, Lundy Steel, Sivaco Maritimes, Sivaco Ontario and Sivaco Quebec. Niagara Wire Weaving, Ingersoll Machine and Tool and New York Wire Mills are being operated as separate corporations.

Acquisitions

In February 1979 the Company completed the acquisition of National Wire Products Corporation of Maryland. The investment of \$8.3 million for newly issued shares of National gave Ivaco a 60% equity interest and majority representation on National's Board of Directors.

Ivaco's percentage interest can be increased to approximately 94% for a predetermined amount of cash based on National's future profits. National manufactures wire, welded wire fabric and block mesh at five plants located in Maryland, Ohio, Georgia and Florida. National will be operated as a subsidiary of Ivaco and will continue to be managed by its existing management team headed by Ray C. Faust.

In early 1979 an 80% interest in Capitol Wire & Fence (formerly J. L. Fence) was acquired with an option to purchase the remaining 20%. Capitol is located at Hyattsville, Maryland and produces a broad range of galvanized, vinyl coated and other forms of industrial and residential fencing.

Outlook for 1979

For Ivaco, sales in the first quarter continued in a strong upward trend. Our plants are working at capacity and from orders on hand there is every indication that this rate will be sustained during the first half of 1979. Recent published forecasts for 1979 indicate slow economic growth in the order of 3% in Canada and 2% in the United States. While the second half of the year will be determined by economic conditions prevailing at that time, we believe that the momentum for strong demand for our products will carry through into the second half of 1979. Ivaco's manufacturing base now comprises 27 plants, 14 of which are located in Canada and 13 in the United States. These modern and efficient facilities form our base for strength and growth for 1979 and beyond. In summary, our outlook for 1979 is optimistic and we expect it will be another good year for your Company.

On behalf of the Board of Directors we would like to express our appreciation to the Company's 4,000 employees and its many customers. Their continued loyalty and support have made this record year possible.

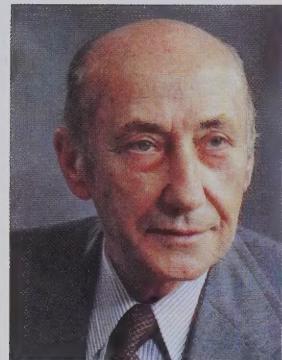
On behalf of the Board of Directors.

ISIN IVANIER
Chairman

PAUL IVANIER
President

Isidor Ivanier

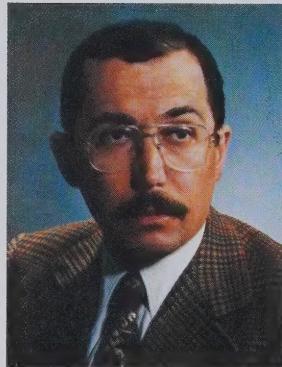
Board of Directors



ISIN IVANIER
Chairman
of the Company



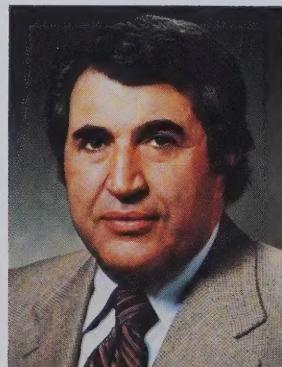
PAUL IVANIER
President
of the Company



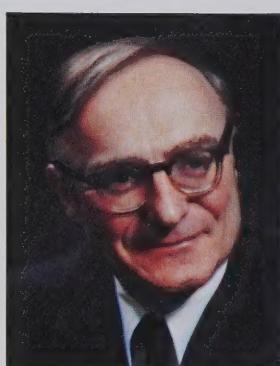
SYDNEY IVANIER
Senior Vice-President
of the Company



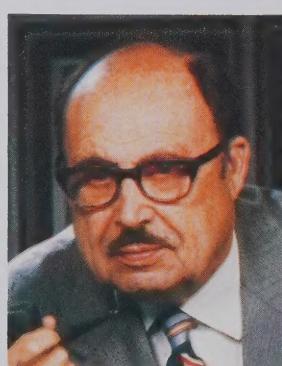
MICHAEL HERLING
Senior Vice-President
and Secretary
of the Company



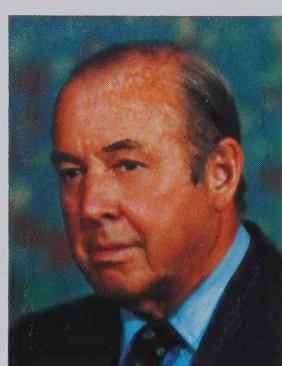
JACK KLEIN
Senior Vice-President
of the Company



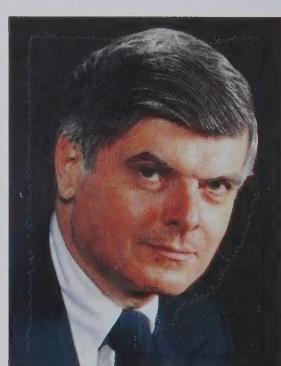
JOHN LOVERIDGE
President,
Ingersoll Machine
and Tool Company, Limited



EDWARD J. BUELL
Chairman,
The Niagara Wire
Weaving Company, Limited

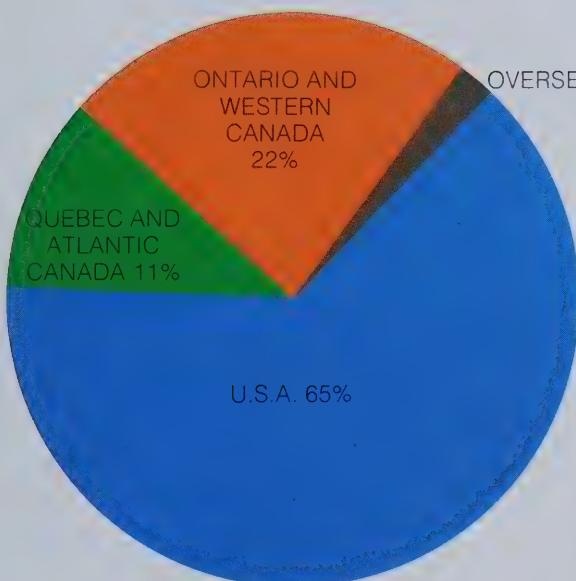


ALAN S. GORDON
Consultant,
Merrill Lynch,
Royal Securities Limited

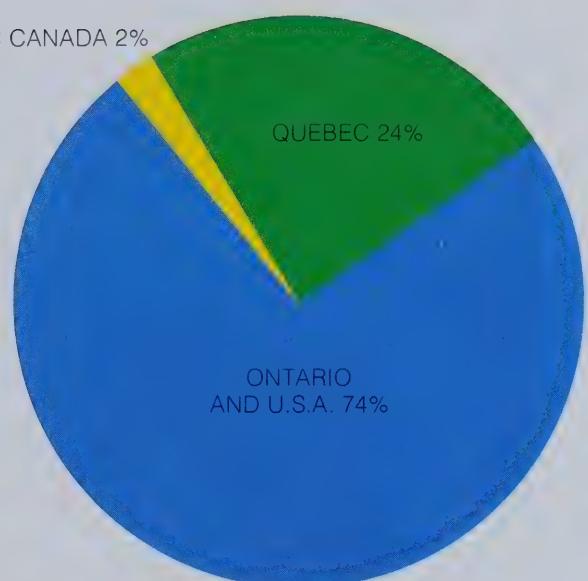


H. B. McNALLY, Q.C.
Partner, Byers, Casgrain,
McNally, Dingle,
Benn & Lefebvre

Geographical Distribution



Sales



Net Fixed Assets

Introduction To The Ivaco Group

Ivaco is an integrated steel producer. The Company is comprised of 27 manufacturing plants located in Canada and the United States and employs approximately 4,000. Its operations can be segregated into five main operating groups:

The Steelmaking Group located in Ontario consists of two plants: a steelmaking facility and a rolling mill. Scrap steel and pre-reduced iron ore pellets are melted in two electric arc furnaces and continuously cast into steel billets. The billets in turn are rolled into hot rolled-wire rods at the adjacent rolling mill. The wire rod is supplied to Ivaco's finishing mills and sold to outside customers.

The Wire Group consists of thirteen plants located in Canada and the United States. These plants use wire rods as their basic raw material for the production of wire products such as nails, low and high carbon wire, welded wire fabric and fencing.

The Fastener Group also uses wire rod as its basic raw material to produce a multitude of standard and specialty nuts and bolts. These are produced at two plants in Ontario and one in Quebec.

The Precision Machined Components Group manufactures precision machined parts in large volume such as drive train parts, steering gears and water pumps for the

automotive, farm implement and construction machinery industries. It also produces axles and suspension systems and is a supplier to the defence industry.

The Fourdrinier and Felt Group operates six plants: two in Canada and four in the United States. Its products are Fourdrinier fabric and wet and dryer felts all of which are used by paper makers as an integral part of the paper making process.

The following pages will provide a brief description of Ivaco's operating groups and review the new facilities added during the year.

Steelmaking

With an annual production of 300,000 tons, steelmaking is a vitally important element in maintaining raw material quality, security of supply and downstream manufacturing flexibility for the Wire and Fastener Groups.

Steelmaking efficiency was upgraded during the year through the installation of an on-line process computer, improved capacity for handling scrap, extension of the billet bay and provision for billet conditioning specifically to achieve improved cold heading quality wire rods.

▼ *Tapping the heat. Molten steel is tapped from the electric furnace.*



Hot Rolled Wire Rods

Hot rolled wire rods comprise the basic raw material for wire, nail and fastener products. Ivaco Rolling Mills, with its two Morgan-Stelmor controlled cooling lines, produces a wide variety of high quality steel rod which is engineered specifically to the requirements of your Com-

pany's manufacturing plants and outside customers.

At present two retarded cooling lines are being installed. When completed these lines will enable the production of softer steels in the lower tensile range which have a

special value in the cold heading and wire drawing processes.

One important benefit enjoyed by your Company is the flexibility of raw material supply which results from the operation of its own steel-making facility and rolling mill.

▼ Wire rods being control cooled on Stelmor lines.



Wire and Wire Products

Wire and wire products are important industrial raw materials and are produced extensively by your Company.

Wire, in a multitude of finishes and with special physical properties, is produced at four plants in Canada and nine in the United States. Wire

products such as oil tempered spring wire, galvanized wire, high carbon spring wire, welded wire fabric, fencing and barbed wire are produced and distributed to the major industrial markets of North America.



◀ *Welded wire fabric produced automatically.*

▼ *Finished product at the end of a wire galvanizing line.*



Nails

Nails are a very important product for your Company. Substantial expansion of nail making facilities occurred during the year. These included a major new manufacturing capability in Florida and increased facilities in Virginia, Nova Scotia and New York.

The Company manufactures a wide range of nail products in the United States and Canada and is an industry leader in developing and applying sophisticated new production technology.



▲ A newly installed nail manufacturing line.



Magnetized conveyor takes nails ► to the weighing and packaging area.

Fasteners represent another important industrial product which your Company supplies to the automotive, construction and other major manufacturing industries. The completion of expansions during 1978 at Marieville and Ingersoll and the opening of new production capacity at Toronto will enable Ivaco to serve its customers better and meet the high demand for these products.

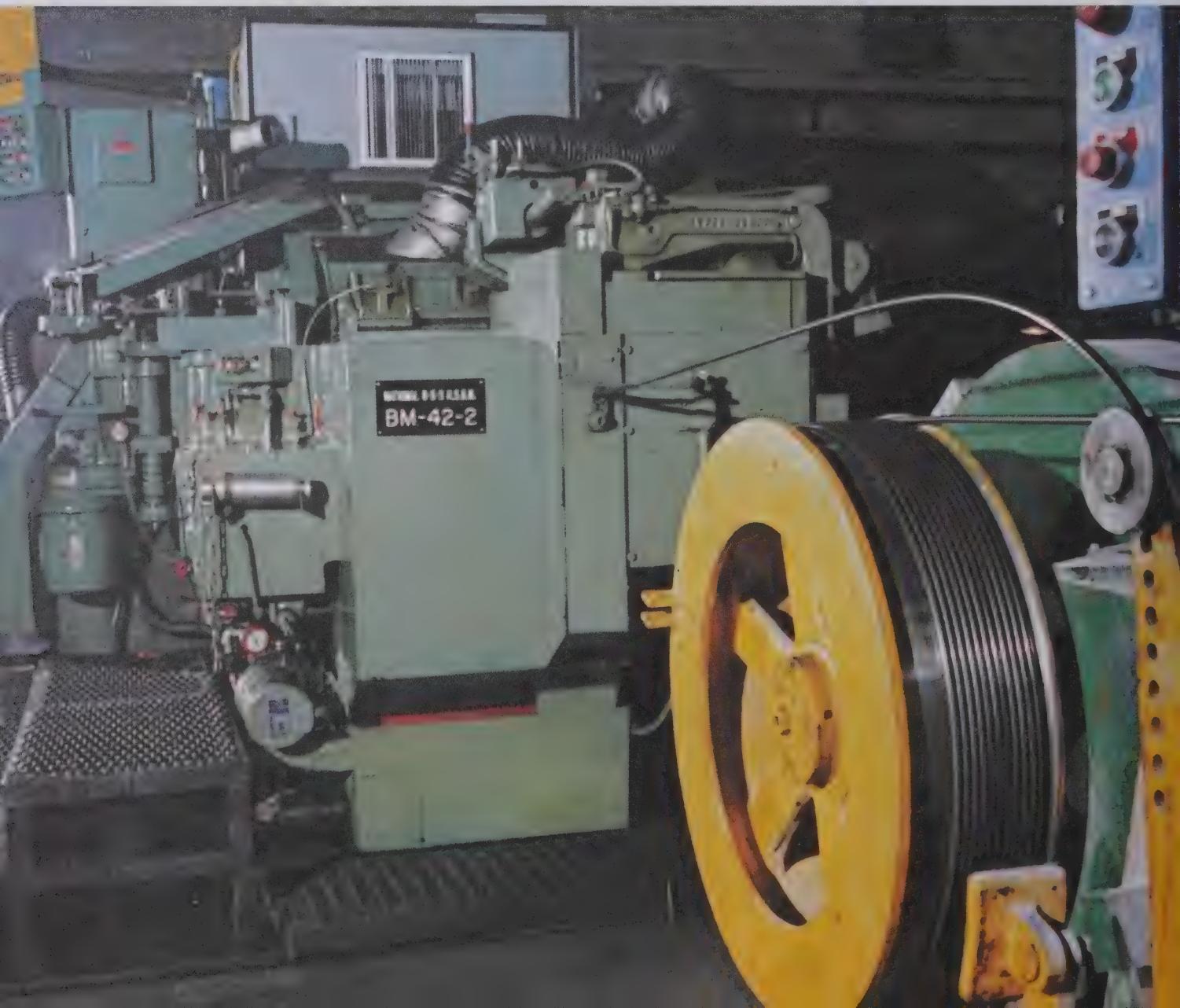
Ivaco fastener products are now produced at three modern and highly automated plants. Through its extensive warehousing facilities it is able to serve its customers in North America and 35 countries around the world.

▼ A new high-speed boltmaker at Marieville.

Fasteners



▲ Fastener warehousing helps maintain high standards of service to customers



Precision Machined Components and Axles

Precision machined components, axles, suspension systems and defence products are manufactured at Ingersoll, Ontario.

The buoyant conditions in the market for automobiles, heavy trucks, construction and agricultural equipment, and recreational vehicles all combined to keep production levels high throughout the year.

Among the major product lines for this member of the Ivaco Group are axles for heavy trailers, suspension systems for light recreational vehicles, automotive steering assemblies, and diesel engine water pumps and similar components.

▼ Setting up for precision machining.



▼ Setting up a modern computer-controlled machining center.



Paper Machine Clothing

Your Company is a research and technology leader in each of the important clothing products required by the paper making industry.

"Clothing" is papermakers' jargon for the very high technology and specialized fabrics that are essential elements to the operation of high-speed paper making machines.

The three primary products are: (i) Fourdrinier fabrics, on which the paper fibres are deposited in the first step of forming the sheet, (ii) the wet felts, which help absorb excess moisture during the second phase in which the sheet gains strength and (iii) dryer felts, which carry the sheet through the last major step in the paper making process.

Each of these products is individually engineered to provide optimum performance for each specific paper machine.

Manufacturing facilities are strategically positioned in Canada and the U.S.A. to serve the expanding pulp and paper industry.

▼ Automatic looms producing Fourdrinier fabric.





▲ The finishing room at Quincy.



▲ Detail of the finishing stage.

Florida

The new Florida Wire and Nail plant at Quincy, Florida is the latest manufacturing facility to be added to the Wire Group. It produces wire, nails and welded wire fabric and has an annual capacity of 36,000 tons.

This large modern plant is adjacent to one of the Company's well established Fourdrinier fabric manufacturing facilities. The start-up experience for this new plant during the first quarter of this year has been extremely satisfactory as a result of access to skilled millwrights and other resources during the construction and running-in phase.

▼ A new welded wire fabric line is being run-in.



▼ A new nail machine is being readied for start-up.



Mississippi

A major expansion of production capacity is underway at the Starkville, Mississippi plant of the Fourdrinier and Felt Group.

As part of this expansion program two new large capacity looms are being installed. One is a flat weaving loom with a width of more than 900 inches and the other is a 560-inch needle loom, one of the largest in the world, which will be used for processing paper machine felts.

Starkville produces a complete range of wet felts and dryer felts for the pulp and paper industry.

▼ *Inspection. Every inch of paper machine "clothing" is inspected before it leaves the plant.*



▼ *This fabric is being stretched and dried prior to shipment.*



Virginia

Virginia Wire and Fabric has become an important supplier of nails and welded wire fabric in the United States market place.

Substantial expansion of nail and mesh manufacturing capacity was completed during the year with the installation of additional nail making

equipment, wire drawing equipment and a new welded wire fabric unit.

▼ Part of a new nail manufacturing line.



New York

New York Wire Mills at Tonawanda, New York added new wire drawing capacity, expanded nail production substantially, and completed a building extension during the year

to house the plant's third oil tempered spring wire production line. Oil tempered spring wire is a large volume specialty product used in the manufacture of a variety of high

performance springs. Completion of the third oil tempered spring wire line early in 1979 is expected to consolidate this division's position as a major supplier to the industry.

▼ Oil tempered spring wire is coiled at the end of the production sequence.



Ontario

Lundy Steel was acquired in May 1978. This division is located at Dunnville, Ontario and produces galvanized wire, fencing, welded wire fabric and cold drawn bars. Since acquisition, Lundy's wire drawing capabilities and its wire galvanizing line have been expanded. Further expansion is now underway including additional wire drawing machines and a new high speed welded wire fabric machine.

▼ *Fencing is an important product for Lundy Steel.*



▼ *Finished product comes off the wire galvanizing line at Dunnville.*



The new Infasco Nut plant located at Toronto was completed in mid year and is operating on three shifts. It produces specialty nuts and bolts which are used predominantly by the automotive, farm equipment and allied industries. These industries require the highest degree of quality assurance from their fastener suppliers.

The new Infasco facility has the most modern and efficient equipment available and is equipped with laboratory and testing facilities to ensure the required high standard of inspection and quality control.

This highly automated plant, strategically located to provide excellent service to its customers, has been approved as a supplier of safety parts for the automotive industry.

▼ Automated nut threading machines at Infasco Nut.



▼ Part of a line of new high-speed boltmakers at Toronto.



Quebec

In 1978 Sivaco Quebec at Marieville completed several important projects. These included: (i) an expansion to its wire strand galvanizing line providing 60% greater output, (ii) a new wire rod cleaning line equipped with an automated acid regeneration plant capable of

recycling spent acids and also capable of fume collection necessary to control the environment. The by-product, ferrous sulphate salts, is dried, bagged and sold for use in water purification plants and agricultural fertilizer, (iii) another major environmental improvement completed during the year is an exhaust system dust collector which collects and filters fumes from the nail galvanizing furnaces.

Substantial expansion is also underway at the Infasco division's Marieville plant. This expansion will be completed in mid 1979 and includes additional boltmaking equipment, additional heat treating lines for fasteners and increased warehousing and shipping facilities.

Upgraded and expanded galvanizing line increased output 60%.



◀ New acid regeneration tower at Marieville.

A new wire rod cleaning line was completed during the year.



Consolidated statement of earnings

For the year ended December 31, 1978

	1978 (in thousands)	1977 (in thousands)
Net sales	\$265,852	\$166,765
Costs and expenses exclusive of items listed below	208,860	138,402
Depreciation	6,779	5,856
Amortization	1,211	952
Interest on long-term liabilities	3,933	3,480
Interest on short-term borrowings	4,011	3,445
	224,794	152,135
Earnings before income taxes	41,058	14,630
Provision for income taxes		
Current	12,178	3,099
Deferred	4,499	1,460
	16,677	4,559
Net earnings before minority interests	24,381	10,071
Minority interests	410	306
Net earnings	\$ 23,971	\$ 9,765
Net earnings per common share	\$ 2.44	\$ 0.99

Consolidated balance sheet

As at December 31, 1978

Assets

	1978 (in thousands)	1977 (in thousands)
Current		
Cash	\$ 813	\$ 4,440
Accounts receivable	45,515	26,628
Inventories (Note 2)	82,344	71,630
Prepaid expenses	1,507	1,133
Current portion of income tax reductions	1,009	2,112
	<u>131,188</u>	<u>105,943</u>
Cash held for investment (Note 3)	8,300	—
Income tax reductions — non current	—	631
Fixed		
Land	1,366	1,043
Buildings	30,328	25,529
Machinery and equipment	129,934	107,248
	<u>161,628</u>	<u>133,820</u>
Less: Accumulated depreciation	37,728	29,575
	<u>123,900</u>	<u>104,245</u>
Construction in progress	6,080	2,194
	<u>129,980</u>	<u>106,439</u>
Investments (Note 4)	6,035	5,866
Other assets (Note 5)	2,991	6,055
	<u><u>\$278,494</u></u>	<u><u>\$224,934</u></u>

On behalf of the Board:

Isin Ivanier, Director

Paul Ivanier, Director

Liabilities

Current

	1978 (in thousands)	1977 (in thousands)
Bank indebtedness — partly secured	\$ 25,511	\$ 36,827
Accounts payable and accrued liabilities		
Trade and other	31,767	20,251
Directors	1,245	308
Income taxes	9,836	2,712
Current portion of long-term liabilities	4,456	8,518
Current portion of deferred income taxes	1,288	895
	<u>74,103</u>	<u>69,511</u>
Long-term liabilities (Note 6)	58,358	30,838
 Deferred income taxes	 28,708	 26,336
 Minority interests	 506	 2,691

Shareholders' equity

Capital stock (Note 7)	41,730	39,169
Contributed surplus	2,443	2,443
Retained earnings (Note 8)	72,646	53,946
	<u>116,819</u>	<u>95,558</u>
	\$278,494	\$224,934

Auditors' Report

The Shareholders,
Ivaco Ltd.

We have examined the consolidated balance sheet of Ivaco Ltd. (formerly Ivaco Industries Limited) as at December 31, 1978 and the consolidated statements of earnings, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE ROSS & CO.
Chartered Accountants

Montreal, Quebec
March 2, 1979

Consolidated statement of retained earnings

For the year ended December 31, 1978

	1978 (in thousands)	1977 (in thousands)
Balance, January 1	\$53,946	\$47,462
Add: Net earnings	23,971	9,765
	77,917	57,227
 Deduct:		
Dividends — preferred	1,568	909
— common	3,703	1,715
Tax paid to create tax-paid undistributed surplus	—	79
Costs relating to issue of preferred shares, Series C	—	578
	5,271	3,281
 Balance, December 31	\$72,646	\$53,946

Consolidated statement of contributed surplus

For the year ended December 31, 1978

	1978 (in thousands)	1977 (in thousands)
Balance, January 1	\$ 2,443	\$ 2,531
Deduct: Reduction of government grant	—	88
 Balance, December 31	\$ 2,443	\$ 2,443

Consolidated statement of changes in financial position

For the year ended December 31, 1978

	1978 (in thousands)	1977 (in thousands)
Working capital, January 1	\$36,432	\$31,067
Source of funds		
Net earnings	23,971	9,765
Charges to earnings not requiring the current outlay of funds		
Minority interests	410	306
Depreciation and amortization	7,990	6,808
Deferred income taxes	3,003	3,486
Gain on disposal of fixed assets	(124)	(274)
Funds from operations	35,250	20,091
Issue of capital stock		
Preferred shares, Series C	—	15,000
Common shares		
On acquisition of minority interest in Industrial Fasteners	1,807	—
On acquisition of Lundy Steel	720	—
Proceeds on issue of Series A and Series B debentures	49,568	—
	87,345	35,091
Application of funds		
Cash held for investment	8,300	—
Net additions to fixed assets	27,550	19,671
Transfer of marketable securities from current assets	—	5,452
Net decrease in long-term liabilities	22,048	1,348
Acquisition of minority interests	2,280	252
Dividends — preferred	1,568	909
— common	3,703	1,715
Other items	1,243	379
	66,692	29,726
Increase in working capital	20,653	5,365
Working capital, December 31	\$57,085	\$36,432

Notes to consolidated financial statements

December 31, 1978

1. Accounting Policies

Basis of Consolidation

The Company follows generally accepted accounting principles on a basis consistent with that of the preceding year in the preparation of its consolidated financial statements which include the accounts of Ivaco Ltd. and all its subsidiary companies. The cost of investments in subsidiary companies in excess of the net assets at the dates of acquisition, adjusted for subsequent purchases of minority interests and the wind-up of subsidiaries into the parent company, has in 1978 been allocated to fixed assets and will be depreciated over the estimated useful lives of the fixed assets; previously such cost was included in other assets and amortized over a 40 year period.

Foreign Exchange

Assets and liabilities in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for working capital items and at approximate exchange rates prevailing at the transaction dates for non-current assets and liabilities. Income and expenses other than depreciation and amortization are translated at average exchange rates prevailing during the

year; depreciation and amortization are translated at historic exchange rates. Gains and losses on translation are included in the determination of earnings.

Inventory Valuation

Inventories are carried at the lower of cost (determined substantially on the first-in, first-out method) and net realizable value.

Fixed Assets and Depreciation

Fixed assets are stated at cost and are depreciated on the straight-line basis over their useful lives. The estimated useful lives of the principal classes of fixed assets are:

Buildings	40 years
Steelmaking and rolling mill equipment	25 years
Manufacturing equipment	15 years

Deferred Preproduction Costs

Certain costs relating to the start-up of new facilities or major plant additions, incurred prior to the commencement of commercial production, are deferred and amortized over periods of up to five years.

2. Inventories

Finished
Semi-finished
Raw materials
Supplies

1978	1977
(in thousands)	(in thousands)
\$24,414	\$22,332
5,824	5,269
39,224	33,536
12,882	10,493
<hr/> \$82,344	<hr/> \$71,630

3. Cash held for Investment in National Wire Products

In February 1979 the Company acquired newly issued shares of National Wire Products Corporation of Maryland for approximately \$8.3 million in cash representing a 60% equity ownership in National.

Under the terms of the purchase agreement Ivaco can increase its percentage of ownership to approximately 94% for a predetermined amount of cash based on National's future profits.

4. Investments

Marketable securities, at cost
Common shares of Laclede Steel Company (market value \$4.2 million)
Mortgages, less current portion

1978	1977
(in thousands)	(in thousands)
\$5,761	\$5,452
274	414
<hr/> \$6,035	<hr/> \$5,866

5. Other Assets

Deferred charges, less amortization relating to:

Preproduction costs
Natural gas pipeline and financing costs

Cost of investment in subsidiary companies in excess of net assets at dates of acquisition, less amortization (Note 1)

Other items

	1978 (in thousands)	1977 (in thousands)
	\$1,639	\$2,546
	1,073	—
	2,712	2,546
	—	3,188
	279	321
	\$2,991	\$6,055

6. Long-Term Liabilities

Secured debentures payable in varying installments from 1979 to 1993

Series A (\$25 million U.S.) at 9¹/₄ % interest
Series B at 10% interest

First Mortgage Sinking Fund Bonds and Debentures, at interest rates varying from 9¹/₄ % to 10¹/₂ %, repaid during the year

Mortgages, at interest rates varying from 7% to 9³/₄ %, payable in varying installments to 1994

Bank loan, (\$2.1 million U.S.) secured by marketable securities, at prime interest rate plus 2%, payable in equal annual installments to 1981

Bank loans, secured and unsecured, at interest rates varying from 9% to prime interest rate plus 2%, repaid during the year

Unsecured deferred accounts payable (of which \$6.7 million are U.S. funds) principally at prime interest rate plus 1¹/₂ %, payable in varying installments to 1983

Less: Installments due within one year included in current liabilities

	1978 (in thousands)	1977 (in thousands)
	\$29,568	\$ —
	20,000	—
	—	8,200
	2,227	2,373
	2,243	2,882
	—	18,603
	8,776	7,298
	62,814	39,356
	4,456	8,518
	\$58,358	\$30,838

The aggregate amounts of payments due in the years ending December 31, 1980, 1981, 1982 and 1983 are \$3.2 million, \$2.6 million, \$5.4 million and \$5.4 million respectively.

7. Capital Stock

Common shares, no par value:

Authorized —

24,000,000 shares of which 12,000,000 have been designated as Class A and 12,000,000 designated as Class B

Issued and outstanding —

Class A — 3,854,815 shares
Class B — 5,460,062 shares

9,314,877 (8,970,649 in 1977)

	1978 (in thousands)	1977 (in thousands)
	\$22,730	\$20,149

7. Capital Stock (cont'd)

Preferred shares, par value \$50 each:

Authorized —

600,000 shares of which 80,000 have been designated as Series A (none of which are outstanding), 120,000 designated as Series B, and 300,000 designated as Series C

Issued —

6% Series B — 89,460 cumulative, convertible, voting shares, of which 80,011 shares (80,400 shares in 1977) are outstanding after exercise of conversion rights
8.85% Series C — 300,000 cumulative, redeemable, non-voting shares all of which are outstanding

1978 (in thousands)	1977 (in thousands)
4,000	4,020
15,000	15,000
\$41,730	\$39,169

Common Shares

The Class A and Class B common shares are voting and are identical in all respects. In 1978 dividends on the Class B common shares were declared out of 1971 capital surplus on hand, as defined in the Income Tax Act (Canada), in amounts equal to dividends declared on the Class A common shares. The provisions of the Income Tax Act (Canada) with respect to dividends paid out of 1971 capital surplus expired on December 31, 1978 and accordingly future dividends on Class B common shares will be declared payable out of regular surplus in amounts equal to the dividends on the Class A common shares.

During the year 344,228 common shares were issued for \$2,581 thousand; of these amounts 219,034 shares were issued for \$1,807 thousand in connection with the acquisition of the minority interest in Industrial Fasteners; 120,000 shares were issued for \$720 thousand in connection with the acquisition of Lundy Steel; 1,294 shares were issued for \$20 thousand on conversion of preferred shares into common shares; and 3,900 shares were issued for \$34 thousand under the employees' stock option plan.

Preferred Shares

The Series B preferred shares are redeemable at 106% of the par value and are convertible into common shares on the following basis:

- i) prior to March 31, 1980 three and one-third common shares for each preferred share.
- ii) after March 31, 1980 and prior to July 31, 1983 two and one-half common shares for each preferred share.

The Series C preferred shares rank equally with the 6% preferred shares Series B and may be purchased by the Company on the open market at a premium of up to 6% of the par value prior to July 1, 1982 and thereafter at prices not exceeding the applicable redemption price. Also, the Company will make all reasonable efforts to purchase on the open market for cancellation in each calendar quarter commencing with the quarter beginning October 1, 1978, 3,000 Series C preferred shares at prices not exceeding \$50 per share. The Series C preferred shares may be redeemed on or after July 1, 1982 at a premium of 6% in the first year, decreasing by $\frac{3}{4}$ of 1% for each year commencing thereafter up to and including July 1, 1990, and thereafter without premium.

Employees' Stock Option Plan

Under the employees' stock option plan options for 119,400 common shares (56,200 shares in 1977) are outstanding at prices varying from \$7.20 per share to \$10.90 per share and an additional 87,900 common shares (40,000 shares in 1977) are reserved for issue.

8. Retained Earnings

Under the terms of issuance of the Company's Series A and Series B Secured Debentures certain payments, principally cash dividends on common

shares, are limited to a certain amount of retained earnings. At December 31, 1978 the Company had approximately \$16 million of retained earnings available for such payments.

9. Directors' and Officers' Remuneration

The Company has nine directors and nine officers. The remuneration paid to the directors and officers

was \$4 thousand and \$923 thousand, respectively. Six of the officers are also directors.

10. Anti-Inflation Legislation

The Company and its Canadian subsidiaries were subject to and complied with the Canadian

Anti-Inflation legislation until the term of such legislation expired on December 31, 1978.

Where our Products are Manufactured

Manufacturing Plants	Location	Products
Capitol Wire & Fence	Hyattsville, Maryland	Fencing products
Eastern Steelcasting	L'Orignal, Ontario	Steel billets
Florida Wire and Nail	Quincy, Florida	Wire, welded wire fabric and nails
Galvano	Beloeil, Quebec	Electro-galvanizing of fasteners and nails
Infasco (formerly Industrial Fasteners)	Marieville, Quebec	Bolts, nuts and fastener products
Infasco Nut	Toronto, Ontario	Bolts, nuts and fastener products
Infatool	Ingersoll, Ontario	Dies and special tooling
Ingersoll Fasteners	Ingersoll, Ontario	Bolts, nuts and fastener products
Ingersoll Machine and Tool	Ingersoll, Ontario	Precision machined components and axles
Ivaco Rolling Mills	L'Orignal, Ontario	Hot rolled wire rods
Lundy Steel	Dunnville, Ontario	Wire, welded wire fabric, galvanized wire, barbed wire, cold drawn bars and fencing products
National Wire Products	Baltimore, Maryland Toledo, Ohio Savannah, Georgia Atlanta, Georgia Tampa, Florida	Wire, welded wire fabric Wire, welded wire fabric Wire, welded wire fabric Wire, welded wire fabric Wire, welded wire fabric
New York Wire Mills	Tonawanda, New York	Wire, welded wire fabric, oil tempered spring wire, nails
Niagara Lockport Industries	Burt, New York Newfane, New York Quincy, Florida Starkville, Mississippi Trois-Rivières, Quebec Warwick, Quebec	Paper machine clothing (wet felts) Paper machine clothing (wet felts) Paper machine clothing (Fourdrinier fabric) Paper machine clothing (wet felts and dryer felts) Paper machine clothing (Fourdrinier fabric) Paper machine clothing (wet felts and dryer felts)
Sivaco Maritimes	Dartmouth, Nova Scotia	Wire and nails
Sivaco Ontario	Ingersoll, Ontario	Wire
Sivaco Quebec (formerly Sivaco Wire & Nail)	Marieville, Quebec	Wire, welded wire fabric, galvanized wire, fencing and nails
Virginia Wire and Fabric	Warrenton, Virginia	Wire, welded wire fabric and nails

Warehouses and Sales Offices

St. John's, Newfoundland
 Moncton, New Brunswick
 Toronto, Ontario
 Ingersoll, Ontario
 Winnipeg, Manitoba
 Calgary, Alberta
 Edmonton, Alberta
 Vancouver, British Columbia

Si vous désirez recevoir un exemplaire français de ce rapport veuillez en aviser le Secrétaire de la Compagnie en écrivant à Ivaco Ltée, 800 rue Ouellette, Marieville, Québec.



